

**DEPARTMENT OF STATE REVENUE
REVENUE RULING ST 97-03**

May 29, 1997

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ISSUE

Sales/Use Tax — Application of Indiana sales/use tax to leased vehicles

Authority: IC 6-2.5-4-10, IC 6-2.5-1-6, IC 6-2.5-5-38.2, Indiana Sales Tax Regulation 45 IAC 2.2-4-27

The taxpayer requests the Department to rule on the application of the sales/use tax to four different transactions involving leased vehicles.

STATEMENT OF FACTS

The taxpayer is an automobile dealer involved in various types of vehicle leasing and sales arrangements. The term "rebate" as used in this ruling refers to manufacturer rebates for which a customer has an option of using the rebate as a down payment or receiving cash from the vehicle manufacturer.

DISCUSSION

Taxpayer's letter of December 5, 1996 involves four (4) different transactions involving leased transactions. Each example will be discussed separately below:

Transaction # 1

In this transaction customer desires to lease a new vehicle. Customer uses \$3,000 cash from savings or rebates as a capital cost reduction (down payment) against the lease deal. For the purposes of this example, assume that the price of the new vehicle being leased is \$27,000 and the customer's down payment is \$3,000.

The facts in this transaction would be reflected as follows:

Price of new vehicle being leased		\$27,000
Capital Cost Reduction (Down Payment)		
(A) Cash (from savings)	\$3,000	\$ 3,000
Balance Due Dealer	\$24,000	

Indiana sales tax regulation 45 IAC 2.2-4-27 defines the amount of actual receipts to be the gross receipts derived from renting or leasing tangible personal property without any deduction for expenses or costs incidental to the conduct of the business.

RULING

The Department rules that sales tax of \$150 is due at time of delivery on the \$3,000 cash or rebate down payment. Indiana sales/use tax would be required to be collected and remitted by the person receiving the rental/lease payments monthly.

Transaction # 2A

In this example, customer owns a vehicle he has previously purchased. A balance remains on the finance contract. Customer's net equity in vehicle he has previously purchased is \$5,000. Customer desires to lease his next vehicle. Customer plans to use the equity from his owned vehicle, plus \$3,000 from rebates or savings as a capital cost reduction (down payment) against the lease deal. Dealer offers to purchase the customer owned vehicle for \$15,000, referred to as "trade-in" value. Prior to July 1, 1997, the customer is not "trading-in" a vehicle, but is simply selling the vehicle to the dealer at the dealer's offered purchase price.

The facts in this transaction would be reflected as follows:

Purchase price of new vehicle being leased		\$27,000
Capital Cost Reduction (Down Payment)		
"Trade-in" value of old owned vehicle	\$15,000	
Payoff of old owned vehicle	(\$10,000)	
(A) Net equity in trade in of owned vehicle		\$ 5,000
(B) Cash		\$ 3,000
Balance due dealer	\$19,000	

RULING

The Department rules that for the periods prior to July 1, 1997, the customer would owe sales tax of \$400 at the time of delivery on \$8,000, consisting of the \$5,000 net equity in the vehicle, plus the \$3,000 cash or rebate. Furthermore, the total amount of the lease payment is subject to Indiana sales/use tax.

Transaction #2B

Effective July 1, 1997, the transaction would be reflected as follows:

Purchase price of vehicle being leased		\$27,000
Trade in value of vehicle owned by customer	\$15,000	
Payoff of old owned vehicle	(\$10,000)	
(A) Value in owned vehicle		\$ 5,000
Capital Cost Reduction (down payment)		
(B) Cash from rebate or savings		\$ 3,000
Balance Due Dealer	\$19,000	

RULING

The Department rules that effective July 1, 1997, sales tax of \$150 would be due to the dealer at time of delivery on the \$3,000 down payment. IC 6-2.5-5-38.2 provides that the value of an owned vehicle is exempt from the sales tax in a vehicle lease transaction if the owned vehicle is exchanged for a like kind vehicle.

Transaction # 3

In this example, the customer is currently driving a vehicle he is leasing. Lease payments remain on the lease contract. Customer desires to lease a new vehicle. He negotiates with the dealer for a lease price on the new vehicle. He also negotiates with the dealer for the highest price to exercise the "buy-out" option on the old leased vehicle. Dealer offers to purchase the "lease contract" for \$15,000. This is sometimes referred to as "trade-in" of a leased vehicle on a new leased vehicle. However, in this example, the customer does not own the leased vehicle, thus the customer cannot trade in the leased vehicle. IC 6-2.5-1-6(a)(2) requires that both parties own the property being exchanged in a like kind exchange.

The termination cost (buy-out) of the old lease is determined by calling the finance company who owns the vehicle and is leasing it to the customer. Dealer buys the old leased vehicle from the finance company at the determined buy-out cost. Value assigned to the old leased vehicle in excess of the lease buy-out price is paid to the customer. The customer uses the difference between the "value" of the old leased vehicle and the buy-out cost as a down payment against the new leased vehicle, plus \$3,000 from savings or rebates as a capital cost reduction.

The facts of this example would be reflected as follows:

Purchase price of new vehicle being leased		\$27,000
Capital Cost Reduction (down payment)	\$15,000	
Lease buy out cost	(\$10,000)	
(A) Equity in lease contract		\$ 5,000
(B) Cash or rebate down payment		\$ 3,000
Balance due dealer	\$19,000	

Sales tax of \$400 is due at time of delivery on the \$5,000 equity in the lease contract and the \$3,000 cash or rebate used as a down payment.

Transaction # 4

In this example, the customer is currently driving a vehicle he has previously leased. Lease payments remain on the lease contract. Customer desires to purchase a new vehicle. He negotiates with the dealer for a purchase price on the new vehicle. The customer also negotiates with the dealer for the highest price to exercise the "buy-out" option on the old leased vehicle. Dealer offers to purchase the lease contract for \$15,000. This is sometimes referred to as a "trade-in" of a leased vehicle on a new vehicle. However, in this example, the customer does not own the property being exchanged in a like kind exchange.

The termination cost (buy out) of the old lease is determined by calling the finance company who owns the vehicle and is leasing it to the customer. Dealer buys the old leased vehicle from the finance company at the determined buy out cost. Value assigned to the old leased vehicle in excess of the lease buy-out price is paid to the customer. The customer uses the difference between the "value" of the old leased vehicle and the buy-out cost as a down payment against the new vehicle, plus \$3,000 from cash or rebates as cost reduction (down payment) against the new vehicle purchase.

The facts of this example would be reflected as follows:

Purchase price of the new vehicle being purchased	\$27,000	
Value of leased vehicle	\$15,000	
Lease buy out cost	(\$10,000)	
(A) Equity in lease contract		\$ 5,000
(B) Cash or rebate as down payment		\$ 3,000
Balance due dealer	\$19,000	

In this example, the customer would owe \$1,350 sales tax at time of delivery. The customer has elected to purchase the new vehicle and has no like kind trade in. Thus, sales tax is due on the \$27,000 purchase price.

CAVEAT

This ruling is issued to the taxpayer requesting it on the assumption that the taxpayer's facts and circumstances, as stated herein, are correct. If the facts and circumstances given are not correct, or if they change, then the taxpayer requesting this ruling may not rely on it. However, other taxpayers with substantially identical factual situations may rely on this ruling for informational purposes in preparing returns and making tax decisions. If a taxpayer relies on this ruling and the Department discovers, upon examination, that the fact situation of the taxpayer is different in any material respect from the facts and circumstances given in this ruling, then the ruling will not afford the taxpayer any protection. It should be noted that subsequent to the publication of this ruling, a change in a statute, a regulation, or case law could void the ruling. If this occurs, the ruling will not afford the taxpayer any protection.